NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: December 2009 **LETTER NO.:** 09-CU-24

TO: Federally Insured Credit Unions

SUBJ: Credit Union Financial Trends for the Third Quarter 2009

ENCL: Financial Trends in Federally Insured Credit Unions
January 1 – September 30, 2009

Dear Board of Directors:

Enclosed is a report highlighting credit union financial trends for the first nine months of 2009. The analysis is based on data compiled from the quarterly call reports submitted by all federally insured credit unions.

The credit union industry remains sound; however, the current economic volatility continues to have an adverse impact on financial trends. This has been noted in the elevated level of failures and the dollar amount of the current and projected losses for the NCUSIF. NCUA's recently approved initiatives to enhance supervision, increase staff, and increase examination frequency in 2010 will help to ensure credit unions continue to meet member needs and maintain financial stability during these challenging times.

Credit risk remains the most pressing issue currently for credit unions and our field staff. Delinquency and loan losses continue to increase, especially in the real estate sector, indicating continued elevated concerns in the credit quality of loan portfolios. The credit quality of loans will remain an ongoing concern due to the weakened real estate market.

NCUA began collecting data on loan modifications in December 2008 with the current reported amount of outstanding real estate loan modifications exceeding $4.9 billion. Loan modifications provide a mechanism to help manage the current elevated levels of credit risk; however, they must be done with sound underwriting criteria and comprehensive policies and procedures. NCUA issued Letter 09-CU-19, Evaluating Residential Real Estate Mortgage Loan Modification Programs, in September 2009 to provide guidance in this area.

Interest rate risk and liquidity risk are also closely monitored and will continue to be emphasized by NCUA. The loan growth noted in the first nine months of 2009 continued to be from the real estate sector with the primary funding sources being higher cost share accounts and borrowed funds. This has been a consistent trend over the last several years and raises the importance of sound interest rate risk and liquidity risk management processes to offset potential rising interest rates.

Given the current issues within the mortgage and credit markets, credit unions originating real estate loans must remain vigilant and enforce sound underwriting practices. Credit unions with higher levels of credit, liquidity, or interest rate risk must maintain diligent risk management practices. Evidence of proactive balance sheet risk management in the industry includes significant growth in first mortgage loans sold in the first three quarters of 2009.

Thank you for your cooperation in submitting your financial and statistical data in a timely manner.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure